LEGISLATIVE FISCAL OFFICE
Streamlining Commission Analysis

Recommendation No. **RECOMMENDATION 226**
Streamlining Draft **AGKENNEDY 03**

Date: December 29, 2009 11:54 AM
Author:
Dept./Agy.: Citizens Property Insurance Corporation
Subject:
Analyst: Travis McIlwain

Citizens Property Insurance Corp.

Require that the FAIR and COASTAL Plans be administered pursuant to the laws governing the plans before the adoption of Act 1133 of the 2003 Regular Legislative Session

To require that the FAIR and COASTAL Plans be administered pursuant to the laws governing the plans that were in effect before the adoption of Act 1133 of the 2003 Regular Legislative Session creating the Citizens Property Insurance Corporation, and that Citizens cease all operations. Because Citizens has bonded and other indebtedness as well as assets, Citizens would continue to exist only to serve its outstanding policies through the next renewal dates and to buy and collect emergency assets as well as any other revenue until all the bonded and other indebtedness of Citizens is paid in full, at which time Citizens would transfer all remaining assets to the state, be terminated and cease to exist.

EXPENDITURES	**2010-11**	**2011-12**	**2012-13**	**2013-14**	**2014-15**	**5 -YEAR TOTAL**
State Gen. Fd.	SEE BELOW	SEE BELOW	SEE BELOW	SEE BELOW	SEE BELOW	
Agy. Self-Gen.	SEE BELOW	SEE BELOW	SEE BELOW	SEE BELOW	SEE BELOW	
Ded./Other	$0	$0	$0	$0	$0	**$0**
Federal Funds	$0	$0	$0	$0	$0	**$0**
Local Funds	$0	$0	$0	$0	$0	**$0**
Annual Total	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**

REVENUES	**2010-11**	**2011-12**	**2012-13**	**2013-14**	**2014-15**	**5 -YEAR TOTAL**
State Gen. Fd.	SEE BELOW	SEE BELOW	SEE BELOW	SEE BELOW	SEE BELOW	
Agy. Self-Gen.	SEE BELOW	SEE BELOW	SEE BELOW	SEE BELOW	SEE BELOW	
Ded./Other	$0	$0	$0	$0	$0	**$0**
Federal Funds	$0	$0	$0	$0	$0	**$0**
Local Funds	$0	$0	$0	$0	$0	**$0**
Annual Total	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**

EXPENDITURE EXPLANATION

Requiring that the FAIR and COASTAL Plans be administered pursuant to the laws governing the plans that were in effect before the adoption of Act 1133 of the 2003 Regular Legislative Session could result in additional costs associated with many variables that are not necessarily addressed within the recommendation or known at this time, but will have to be addressed for financial impact if such recommendation is enacted.

Those cost variables, which are indeterminable at this time, that should be studied include:
1.) converting 132,000 policies as they expire with Citizens to a new administrator. Conversion costs include: IT costs associated with moving necessary documents from Citizens to new provider, re-filings with the DOI.
2.) the management of existing law suits including the 4 class action law suits (not necessarily an additional cost, but an issue that should be managed either by the existing Citizens structure or the new organizational structure).
3.) contract termination costs. Citizens currently contracts with Bankers and First Premium for issuing policies, paying claims up to $25,000.
4.) administration costs of the new administrator of the FAIR and Coastal Plans. Citizens currently has 90 employees and personnel costs of $7.0 million (salaries & related benefits) along with 40 employees working at Bankers and First Premium dedicated to Citizens policyholders. To the extent this recommendation is implemented, there will be effectively 2 staffs: 1.) Citizens - to make debt service payments until 2023, service existing policies until renewal date, 2.) FAIR & Coastal Plan (new administrator) - to provide administrative functions associated with these plan offerings.

This recommendation is silent on R.S. 47:6025, which provides for a refundable tax credit for Louisiana Citizens Property Insurance Corporation assessments paid by the insured. Thus, the Department of Revenue will still be responsible for the potential annual processing costs of 1.2 million property owners in Louisiana who could claim this tax credit.

(continued on page 2)

REVENUE EXPLANATION

There is no anticipated direct material effect on governmental revenues as a result of this measure. This recommendation appears to have no impact upon R.S. 47:6025, which provides for a refundable tax credit for Citizens' assessments paid by the insured. To the extent policy holders file for the credit on income tax returns, the state general fund will still be ultimately paying for such assessments. In addition, Citizens will still be in existence to pay the remaining debt associated with $978.205 million issuance in December 2005 until bonds are paid in fully in 2023.

Senate	Dual Referral Rules	House
☐ 13.5.1 >= $500,000 Annual Fiscal Cost		☐ 6.8(F) >= $500,000 Annual Fiscal Cost
☐ 13.5.2 >= $500,000 Annual Tax or Fee Change		☐ 6.8(G) >= $500,000 Tax or Fee Increase or a Net Fee Decrease

H. Gordon Monk

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CONTINUED EXPLANATION from page one:

The previous arrangement provided that the FAIR and Coastal Plans were required to report to the LA Insurance Rating Commission. However, January 1, 2008, the rating commission was abolished. Thus, the reporting requirements of this recommendation will likely have to be handled by the DOI. The DOI is indicating that such requirements can be handled with existing operating resources and this recommendation should have no impact upon its expenditures. However, there could be additional regulatory requirements of the department during the transitional period.

Background Information:
The previous arrangement provided for the FAIR and Coastal Plans being administered by Audubon Insurance Company. According to DOI records, of the $57.0 million of Audubon's written business in 2001, approximately $30.0 million was generated from the FAIR and Coastal Plan policies. All losses and expenses of the plans in excess of the premiums earned were paid by the assessments on the insurers. As a result of this arrangement, the plans did not accumulate cash reserves and most catastrophic events resulted in assessments to the insurers. The assessments were required to be paid within 30 days and the insurers could recoup such costs associated with the assessments via a premium increase subject to the approval of the Insurance Rating Commission, which does not currently exist.

Senate	Dual Referral Rules	House
☐ 13.5.1 >= $500,000 Annual Fiscal Cost		☐ 6.8(F) >= $500,000 Annual Fiscal Cost
☐ 13.5.2 >= $500,000 Annual Tax or Fee Change		☐ 6.8(G) >= $500,000 Tax or Fee Increase or a Net Fee Decrease

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Senate — Dual Referral Rules — House

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